

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
DIRECTOR
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: irvin@cncl.ci.detroit.mi.us

ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*.

DATE: December 4, 2008

RE: Resolution authorizing the issuance and sale of not to exceed \$115,000,000 General Obligation Bonds, Series 2008-C (Unlimited Tax) and not to exceed \$280,000,000 General Obligation Refunding Bonds, Series 2008-D (Unlimited Tax) (**Recommend Approval**)

The aforementioned resolution (2008 G.O. bonds resolution) will appear on tomorrow's Budget, Finance and Audit Standing Committee agenda. Based on responses to my inquiries, I provide the following report.

\$115,000,000 General Obligation Bonds

The 2008 G.O. bonds resolution replaces the resolution approved by Council on December 4, 2007 authorizing sale of \$55 million in G.O. bonds for the purpose of funding the 2007-08 \$50 million capital improvement program in the 2007-08 Redbook.

In addition, this resolution for a \$115 million G.O. bond sale covers both the 2007-08 \$50 million and the 2008-09 \$52.2 million capital improvement programs, respectively. The two years worth of capital improvement programs total \$102.2 million, leaving a balance of \$12.8 million if Council approved the \$115 million G.O. bond resolution. The \$12.8 million balance gives the Administration cushion for bond issuance cost, including bond insurance, if economically feasible, and any premium on bonds the City may need to pay based on the current bond market conditions.

\$280,000,000 General Obligation Refunding Bonds

The 2008 G.O. bonds resolution also allows for a refunding (refinancing) of up to \$280 million in outstanding general obligation bonds.

The authorization requested for refunding is only to allow the City to take advantage of a refunding opportunity if market conditions allow. Those conditions do not exist right now.

According to Finance, the City generally uses a 3% threshold of present value savings in order to proceed with a refunding. The City's policy is to refund only those bonds that pass the 3% threshold.

However, if all of the \$280 million of outstanding bonds were to be refunded, the projected present value savings using that threshold would be \$8.4 million.

Market Conditions

The 2008 G.O. bonds would be rated by the rating agencies. The current unlimited tax (voter authorized) G.O. bonds are rated a step above below investment grade status. It is hoped the 2008 G.O. bonds, if approved by Council, would not receive a rating below investment grade status. It is also hoped that the successful issuance of the 2007 CAFR, plans for the completion of future CAFRs, and plans to eliminate the accumulated deficit would be favorably received by the rating agencies.

Given the downgrades in credit ratings received by the bond insurers, it is becoming more difficult to issue bonds with greater security and higher ratings. According to Finance, the City would still perform an analysis to see if it is economically feasible to purchase bond insurance to achieve a higher rating. Unfortunately, the number of credible bond insurers available has dwindled drastically. Therefore, municipalities are forced to sell bonds based more on their own merits, or come up with innovative ways, such as using another municipality's high rating as a back up.

In today's market, the average interest rate the City most likely would be able to achieve with the 2008 G.O. sale is approximately 6%, which is higher than in recent years.

CAFR Situation

The Administration hopes to issue a completed 2007 CAFR by February 2009, if not sooner. However, starting in January 2009, the 2008 CAFR will be late. It is hoped the State Treasurer's office will approve the 2008 G.O. bonds resolution, if first approved by your Honorable Body, based on the completion of the 2007 CAFR, and the development of a deficit elimination plan approved by Council.

Therefore, I believe it is prudent for Council to consider approving the 2008 G.O. bonds resolution during your formal session on Tuesday, December 9th in order to get this resolution up to the State Treasurer's for review and approval as soon as possible.

Recommendation

Based on the above analysis, I recommend approval of the 2008 G.O. bonds resolution.

cc: Council Divisions
Auditor General's Office
Joseph Harris, Chief Financial Officer
Donita Crumpler, Manager I-Finance
Pamela Scales, Budget Director
Renee Short, Budget Team Leader, Budget Department
Arese Robinson, Mayor's Office

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